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February 22, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF HA'RE JOHN'S PARADISE, INC. – A GROUP
HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Ha're John's Paradise, Inc. (Ha're John's or Agency) fiscal operations for the period of January 1, 2003 through December 31, 2003. Ha're John's is licensed to operate a group home with a resident capacity of ten children between the ages of seven through sixteen. For calendar year 2003, the Agency received a total of \$562,875 in foster care funds from the Department of Children and Family Services (DCFS). Ha're John's is located in the Second Supervisorial District.

Scope

The purpose of our review was to determine whether Ha're John's has complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State, and County fiscal guidelines governing the disbursement of group home foster care funds.

"To Enrich Lives Through Effective and Caring Service"

Summary of Findings

Our review disclosed a total of \$19,014 in questioned costs and \$3,656 in unaccounted for revenue. The Agency needs to strengthen its internal controls over payroll/personnel records, bank reconciliations, and properly report independent contractor's income. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and unaccounted for revenue and, if appropriate, collect all disallowed amounts. In addition, DCFS needs to ensure that Ha're John's management takes appropriate corrective actions to address the recommendations in this report and monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with Ha're John's management on January 25, 2005. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Ha're John's management and staff for their cooperation during our review.

If you have any questions, please contact me, or your staff may contact Jim Schneiderman at (626) 293-1103.

JTM:MO:JS:MM

Attachment

c: David E. Janssen, Chief Administrative Officer
David Sanders, Ph.D., Director, Department of Children and Family Services
Ha're John's Paradise, Incorporated
Hazel Culpepper, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee
Commission for Children and Families

HA'RE JOHN'S PARADISE, INC.
FISCAL AUDIT OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Ha're John's Paradise, Inc. (Ha're John's or Agency) to provide the basic needs and services for foster care children placed in the Agency's care. The Agency is licensed to operate a group home with a resident capacity of ten children between the ages of seven through sixteen. Ha're John's is located in the Second Supervisorial District.

Under the provisions of the contract, the County pays Ha're John's a monthly rate for each child based on the Group Home Annual Rate determined by the California Department of Social Services (CDSS). During our review period, January 1, 2003 through December 31, 2003, Ha're John's received a monthly rate of \$4,858 per child placed in the group home and received a total of \$562,875 in foster care funds from DCFS.

APPLICABLE REGULATIONS AND GUIDELINES

Ha're John's is required to operate its group home in accordance with certain federal, State, and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- Group Home Contract, including Exhibit I, Auditor-Controller Contract Accounting and Operating Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

Our review disclosed a total of \$19,014 in unsupported/inadequately supported expenditures and unallowable expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

The A-C Handbook, Section A.3.2, states that all expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed upon audit. The A-C Handbook also states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases. Our review identified \$15,547 in expenditures that were either not supported, or were not adequately supported. Specifically, we noted the following:

- \$14,832 in inadequately supported credit card charges. The Agency used six credit cards (Sears, Levitz, Walmart, Home Depot, Mobil and Chevron) for which they only provided credit card statements. The Agency did not provide itemized receipts or invoices for our review. Much of the activity reflected on the statements were carry-forward balances, which did not identify the nature of the individual expenditure(s) that comprised the carry-forward amount. Accordingly, we were unable to determine if the original expenditures were reasonable and allowable. We noted that the Agency was making monthly payments to reduce these liabilities and, as of December 2003, only the Sears card had an outstanding balance, \$2,009.
- \$715 in petty cash expenditures for which the Agency did not provide receipts to justify the expenditures, or they submitted receipts that were paid for with either food stamps or WIC checks, a federal program providing food and other services to low-income pregnant women, infants and children ages five and younger. We consider these expenses as inadequately supported costs because we do not know whether these expenses were related to the group home.

Unallowable Expenditures

Petty Cash

Section C.1.5 of the A-C Handbook states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the foster care program are allowable. Our review disclosed disbursements of petty cash funds to the former Executive Director and Assistant Executive Director totaling \$1,402 to be

used for the payment of credit card expenditures. However, these same credit card transactions were eventually paid from the Agency's checking account. Therefore it is unclear why the Agency would have provided Agency executives with petty cash funds to pay these expenses. Agency representatives were unable to provide a reasonable explanation for this observation. Included among the questioned credit card expenditures is one receipt that appears to be for a three year-old girl's birthday party, which is unusual because the group home is licensed to serve only boys between the ages of 7 and 16.

Penalties and Interest

The Agency paid \$2,065 in late fees and finance charges from credit card bills and late fees on two Agency vehicle registration fees. According to Sections 16 and 23 of Attachment B to the Circular, fines, penalties, and interest payments are unallowable costs.

Unaccounted for Revenue

For calendar year 2003, we traced payments made by DCFS to Ha're John's bank records (i.e., deposit slips and bank statements). However, we were unable to determine if \$3,656 in DCFS payments were deposited into Ha're John's bank account and used for allowable group home activities.

Recommendations

1. **DCFS management resolve the \$22,670 in questioned costs and unaccounted for revenue and, if appropriate, collect any disallowed amounts.**

Ha're John's management:

2. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**
3. **Ensure that foster care funds are used only for allowable expenditures to carry out the purpose and activities of the Agency.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several internal control weaknesses during the review. DCFS should ensure that Ha're John's management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure the corrective actions result in permanent changes.

Accounting Procedures

We reviewed Ha're John's accounting procedures and noted that the Agency does not maintain an employee benefits log to track employee vacation time. Section B.3.2 of the A-C Handbook states that employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased when benefit hours are earned and decreased as hours are used. The Agency indicated that each full-time employee earns five days of vacation time per year. When vacation time is used, the days taken are documented on a calendar which is not an adequate method to track benefit leave balances as required by the A-C Handbook. The Agency should prepare and maintain a benefits log to track the accumulation and usage of employee benefits as required by the A-C Handbook.

Recommendation

- 4. Ha're John's management prepare and maintain a benefits log to track the accumulation and usage of employee benefits.**

Petty Cash Fund

Section B.2.3 of the A-C Handbook indicates that a petty cash fund (fund) up to \$500 may be maintained for payment of small incidental purchases and the contractor must obtain written approval from the County to establish a fund greater than \$500. Ha're John's has not established an imprest amount for its fund, nor does it have a limit on the amount of petty cash funds that can be issued at any given time. Throughout calendar year 2003, the Agency issued as much as \$4,500 in a month for petty cash purposes. In many instances, we noted that purchases were not for small incidental items. As an example, the Agency's groceries were routinely paid for with petty cash funds.

The Agency should establish a \$500 limit on the petty cash fund and use this fund for only incidental expenses. If the Agency needs to increase the \$500 limit, then it must obtain written approval from DCFS.

In addition, Section B.2.1 of the A-C Handbook states that checks shall not be payable to cash, or signed in advance. We noted five checks totaling \$16,800 that were payable to cash. According to Agency management, the checks were used to provide cash advances to employees for expenditures for food, outings, child allowances, laundry, car washes and haircuts for children. Ha're John's should discontinue its practice of advancing funds to Agency employees. Receipts and vouchers supporting the fund replenishment should be bound together, filed chronologically and cross referenced to the reimbursement check.

Recommendations

Ha're John's management:

5. **Establish an imprest amount for the Agency's petty cash fund, not to exceed \$500.**
6. **Limit the use of petty cash funds to incidental expenses as defined in the A/C Handbook.**
7. **Discontinue the practice of providing cash advances to Agency employees to pay for various Agency related expenditures.**

Payroll/Personnel Controls

Ha're John's payroll and personnel procedures are not in compliance with CDSS MPP, Section 11-402, which requires supporting documentation to be maintained for all program expenditures including employee salary rates. In addition, Circular, Section 7.m, states that employee salaries and wages must be supported by records indicating the total number of hours worked each day and that the payroll records must be signed by the employee and approved by a supervisor.

We sampled the personnel files and payroll records of 12 employees and noted the following:

- Seven (58%) employee personnel files did not contain a salary rate.
- Of the five personnel files that did contain a salary rate, four did not match the amount that was actually paid to the employees.
- Eight (67%) timecards did not match the hours reported on the Data Entry Worksheet that was prepared and submitted for payroll processing.
- Two (17%) employees signed and approved their own timecard.
- One (8%) employee timecard was blank. Therefore, we could not verify if the number of hours paid was correct.

Recommendations

Ha're John's management ensure:

8. **Employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.**
9. **All time sheets are signed by the employees and approved in writing by management to certify the accuracy of the reported time.**

Bank Reconciliations

A-C Handbook, Section B.1.4, states that bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. During our review period, the bank reconciliations were prepared by a contractor specializing in accounting and payroll services. However, none of the bank reconciliations were signed or dated by the reviewer. Therefore, we were unable to determine whether the bank reconciliations were reviewed by the Agency's management for accuracy and appropriateness.

Recommendation

10. **Ha're John's management sign and date the monthly bank reconciliations to document that the reconciliations have been reviewed and approved.**

Non-Compliance with Federal and State Tax Laws

According to Section 18 of the Agency's contract with the County, the Agency shall conform to and abide by all applicable Municipal, County, State and Federal laws and regulations, including those related to the reporting of income to the appropriate federal and State taxing agencies. In addition, Section A.2.6 of the A-C Handbook states that the contractor will ensure compliance with all applicable federal and State requirements for withholding payroll taxes (FIT, FICA, FUTA, SIT, SIU, etc.), reporting, filing (941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits.

Our review disclosed that income for one of the Agency's independent contractors was incorrectly reported for calendar year 2003. Specifically, Form 1099 for this contractor was understated by \$525, as compared to the amount recorded in the Agency's general ledger.

Recommendation

11. **Ha're John's management ensure that all income from independent contractors is properly reported to the federal and State taxing agencies.**